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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

APR 20 1992
N92-2263

[√] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 31, 1992

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES ACT OF 1934

For the transition period from ..... to .....

Commission File Number: 0-10443

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UNITED FINANCIAL GROUP, INC.

(Exact Name of Registrant as specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**74-2029669** (I.R.S. Employer Identification Number)
5847 San Felipe, Suite 2600 Houston, Texas (Address of principal executive offices)	**77057** (Zip Code)

Registrant's telephone number, including area code: (713) 267-3781

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [√] No [ ]

Indicate number of shares outstanding of the Registrant's Common Stock at April 17, 1992: **8,074,370**

The Exhibit Index is located on page 12.
The total number of sequentially numbered pages is 13.

BEST COPY AVAILABLE

UNITED FINANCIAL GROUP, INC.

FORM 10-Q

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UNITED FINANCIAL GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	In Thousands	
	March 31, 1992	December 31 1991
Assets:		
Cash and cash equivalents	$ 11,400	11,518
Loans and notes receivable	1,389	1,412
Other investments	463	466
Other assets	174	282
Total assets	$ 13,426	13,678
Liabilities:		
Accounts payable and accrued liabilities	$ 151	281
Notes payable and other borrowings	4,598	4,582
Other liabilities	6,378	6,420
Total liabilities	$ 11,127	11,283
Cumulative preferred dividends in arrears	$ 3,054	2,863
Redeemable preferred stock, no par value	16,317	16,307
Common stockholders' equity (deficit):		
Common stock, no par value; 12,000,000 shares authorized at March 31, 1992 and December 31, 1991; 8,074,370 shares issued and outstanding , net of 115,000 shares in treasury	56,289	56,289
Retained deficit	(73,361)	(73,064)
Total common stockholders' equity (deficit)	(17,072)	(16,775)
	$ 13,426	13,678

See accompanying notes to condensed consolidated financial statements.

UNITED FINANCIAL GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	In Thousands Except Per Share Data	
Three Months Ended March 31,	1992	1991
Interest income	$ 177	232
Other income	—	102
	177	334
General and administrative expenses	194	260
Salaries and related expenses	—	127
Interest expense	105	105
Amortization	(26)	(28)
Other expenses	1	1
	274	465
Loss before income taxes	(97)	(131)
Income taxes	—	—
Net loss	$ (97)	(131)
Net loss applicable to common stock after reductions for preferred stock dividends and accretion	$ (298)	(332)
Loss per common and common equivalent share	$ (0.04)	(0.04)

See accompanying notes to condensed consolidated financial statements.

United Financial Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

		In Thousands	
Three Months Ended March 31,		1992	1991
Operating Activities:			
Net loss	$	(97)	(131)
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization		(38)	(38)
Changes in assets and liabilities related to operations:			
Decrease (increase) in other assets		108	43
Increase (decrease) in accounts payable and accrued liabilities		(130)	(216)
Cash from (for) operating activities	$	(157)	(342)
Investing Activities:			
Maturities of investments in debt securities	$	40	66
Cash from (for) investing activities	$	40	66
Financing Activities:			
Payment of post-employment benefits	$	(1)	—
Cash from (for) financing activities	$	(1)	—
Increase (decrease) in cash and cash equivalents		(118)	(276)
Cash and cash equivalents, beginning of period		11,518	10,767
Cash and cash equivalents, end of period	$	11,400	10,491

See accompanying notes to condensed consolidated financial statements.

1. Basis of Presentation

Principles of consolidation and presentation

The unaudited condensed consolidated financial statements include the accounts of United Financial Group, Inc. and its subsidiaries ("UFGI" or the "Company"), all of which are wholly-owned. Prior to December 30, 1988, UFGI was in the business of offering products and services within the mortgage lending and savings industries and engaged in an array of investment activities, primarily through its most significant subsidiary, United Savings Association of Texas ("USAT"), and USAT's wholly-owned subsidiaries. On December 30, 1988, USAT was placed into receivership by the Federal Deposit Insurance Corporation ("FDIC" which term, as used herein, includes its predecessor, the Federal Savings and Loan Insurance Corporation, "FSLIC"), and the Company's net liabilities related to its investment in USAT were written off at that time. Since December 30, 1988, management of the Company has concentrated its efforts on the resolution of issues with the FDIC and other claimants, and the Company's business activities have been limited to the management of investments.

All material intercompany transactions are eliminated in consolidation. The unaudited condensed consolidated financial statements included herein reflect all adjustments necessary to present fairly the financial position and results of operations for the periods indicated. The results of operations for the interim periods are not necessarily indicative of results to be expected for the year. Certain reclassifications have been made to the 1991 condensed consolidated financial statements to conform with the presentation used in 1992.

Earnings (loss) per common and common equivalent share

Earnings (loss) per common and common equivalent share is computed using UFGI's net income (loss), adjusted for redeemable preferred stock dividends and accretion of redeemable preferred stock to its redemption value. The adjusted net income (loss) is then divided by the weighted average number of common shares outstanding during the period, including dilutive common stock equivalents resulting from common stock options and redeemable preferred stock outstanding. Such average common and common equivalent shares were 8,074,370 for the three-month periods ended March 31, 1992 and 1991.

2. Commitments and contingent liabilities

In connection with its actions placing USAT into receivership on December 30, 1988, the FDIC made claims against the Company for damages equal to approximately $548 million (the "FDIC Claims"). The FDIC alleged that it was damaged by the Company's failure to maintain USAT's net worth in accordance with Federal Home Loan Bank Board regulations. Additionally, the FDIC claimed that, as a result of the Company's utilization of certain tax losses incurred by USAT, the Company was obligated to USAT for amounts related to federal income tax refunds obtained.

During 1989 and 1990, management of the Company negotiated with representatives of the FDIC concerning a possible settlement of the FDIC Claims. On December 5, 1990, the FDIC informed the Company that there would be no further attempts at that time to settle the FDIC Claims. In mid-1991, however, the Company and the FDIC reopened settlement negotiations as the Company sought to settle all claims against the Company. As of March 31, 1992, no settlement had been reached. In November 1991, the Company agreed with the FDIC to execute a Tolling Agreement which would toll the running of the statute of limitations and certain other equitable defenses for a period ending no later than July 31, 1992. Pursuant to the Tolling Agreement, counsel for the FDIC has notified the Company of possible claims the FDIC might have against the Company and certain former officers and directors of the Company and USAT. The Company may be obligated to indemnify the former officers and directors for any damages and/or expenses including legal expenses they may incur. The Company has agreed to advance legal and other expenses for these persons, provided, however, that if it is ultimately shown that such persons are not entitled to indemnification, they have agreed to reimburse the Company for any advances made on their behalf. As a result of the possible litigation arising out of the Company's attempt to settle all claims with the FDIC, together with the Company's potential obligations to indemnify certain current and former officers and directors of the Company and USAT, the Company has determined that it will not commit its assets to new business opportunities at this time. Should the Company elect to seek business opportunities while the FDIC Claims and other possible claims have not been finally resolved, the Company intends to keep a substantial portion of its assets in liquid investments.

After USAT was placed into receivership in 1988, former officers and directors of USAT and the Company sought amounts from the Company pursuant to the terms of various employment arrangements. During 1989, 1990 and 1991, the Company reached settlements with ten of these individuals whose claims against the Company exceeded $4.5 million. Those settlements required cash payments of approximately $1.4 million.

Included in "Other liabilities" at March 31, 1992 and December 31, 1991 are amounts accrued by the Company for contingent liabilities, including the FDIC Claims. Statement of Financial Accounting Standards No. 5, *Contingencies*, requires that management of the Company recognize a liability for estimated losses arising from asserted and unasserted claims when losses from such claims are probable and reasonably estimable. Periodically, management of the Company reviews its estimates of probable losses to determine whether the liabilities accrued for contingencies require adjustment.

3. Federal income taxes

No tax benefits have been recognized in connection with the Company's net loss in 1991 or for the first quarter of 1992.

At December 31, 1991, UFGI had a financial accounting tax loss carryforward and a tax net operating loss carryforward of approximately $4,069,000 which, if not utilized to offset future taxable income, will expire in the period from 1993 to 2006.

Under provisions of the Internal Revenue Code, a parent corporation that joins in filing a consolidated federal income tax return with its subsidiary must make certain annual adjustments to the tax basis of stock it owns in such subsidiary. The required adjustments include, among other things, a decrease in the tax basis for tax losses of a subsidiary utilized to offset income of the parent and for dividend payments made by a subsidiary to its parent corporation. If a parent has a negative tax investment basis (referred to as an "excess loss account") with respect to the stock of the subsidiary, the occurrence of certain events, including the determination that the stock of the subsidiary is "worthless", results in the recognition of the excess loss account in taxable income. Prior to USAT being placed into receivership, UFGI had an excess loss account with respect to its investment in USAT of approximately $75 million. However, in connection with the FDIC placing USAT in receivership and the subsequent sale of USAT's assets, the FDIC provided a note (the "FSLIC Note") in the approximate amount of $261 million to USAT. A subsequent audit resulted in an increase of the FSLIC Note to $309 million. UFGI received a ruling from the Internal Revenue Service that UFGI's tax basis in USAT's stock was increased by the amount of the FSLIC Note. On December 30, 1988, UFGI's adjusted basis in USAT's stock was written off. The amount of such basis was either $186 million or $234 million, depending on the treatment the subsequent increase of the FSLIC Note. As a result, the Company has a loss carryforward equal to such adjusted basis. It is uncertain whether such loss is characterized as a capital or an ordinary loss and the final determination of the nature of the loss could have a significant impact on its utilization and expiration. The Company has not determined whether it will seek a ruling on the nature of the loss. If a ruling is sought, there is no assurance that the Internal Revenue Service will issue any such ruling.

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion provides information which management believes is relevant to an assessment and understanding of the Company's operations and financial condition. This discussion should be read in conjunction with the Condensed Consolidated Financial Statements (unaudited) and accompanying Notes included in Item 1.

Financial Condition

At March 31, 1992 and December 31, 1991, money market funds made up 85% of the Company's assets. Mortgage-backed securities, bonds and notes receivable made up the remainder of the Company's income-earning assets. Included in the $11.4 million total for "Cash and Cash Equivalents" at March 31, 1992 are certificates of deposit with one year or shorter maturities and an investment portfolio of government securities and commercial paper available for immediate withdrawals. At December 31, 1991, the Company's assets were similarly invested.

The Company's significant remaining liabilities at March 31, 1992 include the Company's 9% Secured Sinking Fund Debentures (the "Debentures") which mature in 1993 and amounts accrued for contingencies, as discussed in Note 2 of Notes to Condensed Consolidated Financial Statements, included herein.

Results of Operations

Interest income and investment income (loss)

Interest income for the three months ended March 31, 1992 was $177,000, compared to $232,000 in the first three months of 1991. That decrease is attributable to lower interest rates earned by the Company's short-term investments. Amounts invested short term were approximately the same during the quarters ended March 31, 1992 and 1991, but between January 1991 and March 1992, rates of interest on the Company's certificates of deposit dropped from an average of 8.15% to an average of 4.73%. Interest rates on other short-term investments by the Company similarly declined.

Other income

During the three-month period ended March 31, 1991, the Company recognized as income non-refundable amounts paid by a real estate developer in connection with a contract for the sale of the Company's real estate asset. The purchaser of the real estate defaulted on the contract. In the third quarter of 1991, the Company's real estate was sold, at a gain, to a different purchaser.

Salaries and related expenses

From January 1989 until August 1991, the Company maintained only four employees. In August 1991, the Chairman of the Board and President of the Company resigned, and on October 1, 1991, all other employees of the Company terminated their employment. As a result, the Company's salary expenses were eliminated as of October 1, 1991. Salaries and related expenses for the three months ended March 31, 1991 were $127,000 — approximately 26% of total expenses.

In connection with the October 1, 1991 termination of Arthur S. Berner, Executive Vice President, Secretary and General Counsel, and in satisfaction of any and all severance or other obligations of the Company in connection with such termination, Mr. Berner entered into a severance agreement, pursuant to which the Company will provide the law firm with which Mr. Berner has become affiliated a minimum retainer (the "Retainer") for each year in the two year period beginning October 1, 1991 and ending September 30, 1993. The Retainer will be in the amount of $150,000 per year, payable on October 1 of 1991 and 1992. Services rendered by Mr. Berner's firm during the ensuing twelve month periods after each payment will be charged against the prepaid Retainer. To the extent services rendered by the firm during the year beginning October 1, 1991 and ending September 30, 1992 exceed $150,000, the Retainer for the year beginning October 1, 1992 and ending September 30, 1993 will be reduced by the amount of such excess. If Mr. Berner's firm is precluded from representing the Company on certain specified matters due to a conflict of interest, the Retainer may be reduced by an amount equal to the fees paid to other counsel for providing services resulting from this conflict, but only to the extent the Company does not retain other counsel to represent the Company on matters as to which Mr. Berner's firm would be in a position to represent the Company. At the time of his termination, pursuant to the severance agreement, Mr. Berner acquired his Company-owned automobile, and

the Company agreed to pay for a portion of his health, disability and life insurance through the period ending October 1, 1993.

The Company entered into a one-year contract with a former employee and a firm of certified public accountants to provide for certain of the Company's accounting and administrative functions. The cost of those services is included in general and administrative expenses.

General and administrative expenses

General and administrative expenses for the three month periods ended March 31, 1992 and 1991 were dominated by legal fees related to the negotiation of settlements of the claims described in Note 2 of Notes to Condensed Consolidated Financial Statements, included herein. In the three-month periods ended March 31, 1992 and 1991, legal fees were 56% and 57% of total general and administrative expenses. Other professional services, primarily audit and accounting fees, were 15% and 10% of total general and administrative expenses for the three-month periods ended March 31, 1992 and 1991, respectively. No other expense type included in general and administrative represents more than more than 10% of the total.

In the quarter ended March 31, 1992, general and administrative expenses were $66,000 lower than such expenses in the same quarter of 1991. This decrease is primarily due to a decline in legal fees from $148,000 in the first quarter of 1991 to $109,000 in the first quarter of 1992. Other categories of general and administrative expense, including such items as travel, office expenses and insurance, declined as a result of the termination of all employees, as described above.

Interest expense

Interest expense for the three months ended March 31, 1992 was unchanged from the same period in 1991. The 9% Secured Sinking Fund Debentures due 1993, which require sinking fund payments in 1992 and 1993, were the only debt of the Company during both quarters.

PART II - OTHER INFORMATION

Item 3. ***Defaults Upon Senior Securities***

Since May 1, 1988, quarterly dividends on UFGI's Series B $13 Cumulative Preferred Stock (the "Series B Preferred") in the amount of $191,000 were due and have not been paid. As of March 31, 1992, the total amount of arrearages in the payment of the Series B Preferred dividends was $3,053,700. In addition, UFGI was required to make sinking fund payments for the redemption commencing May 1, 1989, of certain shares of such Series B Preferred in the amount of $147,000 per quarter. As a result of UFGI's capital position, pursuant to Section 170 of the Delaware Corporation Law, UFGI was not legally permitted to make such sinking fund and dividend payments. In addition, the Board of Directors of UFGI has determined not to make any further preferred stock dividend or sinking fund payments on any class of preferred stock until further action of the Board of Directors changes such determination.

Pursuant to the terms of the Series B Preferred, any dividend not paid will accumulate, and UFGI will be unable to pay dividends on its Common Stock until all dividend arrearages are paid. In addition, since UFGI has failed to make five dividend payments when due (whether consecutive or not), the holder of the Series B Preferred is entitled to elect one person to the Board of Directors at the next Annual Meeting of Stockholders of the Company. The Series B Preferred holder has not opted to elect such a director.

Item 5. ***Other Information.***

The Company has received an exemption from the registration requirements of the Investment Company Act of 1940. Such exemption will expire on December 30, 1992.

Item 6. ***Exhibits and Reports on Form 8-K***

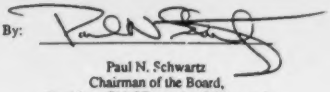
(a) Exhibits

Exhibit 11 - Computation of Earnings (Loss) per Common and Common Equivalent Share for the Three Months Ended March 31, 1992 and 1991

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED FINANCIAL GROUP, INC.
Registrant

By: 

April 12, 1992

Paul N. Schwartz
Chairman of the Board,
President, Chief Executive Officer and
Chief Financial Officer

UNITED FINANCIAL GROUP, INC.

EXHIBIT INDEX

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UNITED FINANCIAL GROUP, INC.

EXHIBIT 11

COMPUTATION OF NET INCOME (LOSS)
PER COMMON AND COMMON EQUIVALENT SHARE
(Unaudited)

		In Thousands Except Per Share Data	
		Three Months Ended March 31,	
		1992	1991
Computation of net income (loss) applicable to common stock:			
Net loss	$	(97)	(131)
Preferred stock dividends accrued		(191)	(191)
Accretion of redeemable preferred stock to redemption value		(10)	(10)
Net loss applicable to common stock	$	(298)	(332)
Computation of average common and common equivalent shares:			
Common shares outstanding at beginning of period		8,074	8,074
Average common and common equivalent shares		8,074	8,074
Net loss per common and common equivalent share	$	(0.04)	(0.04)